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Growing for Good

German Automakers pick up Speed in Dixie

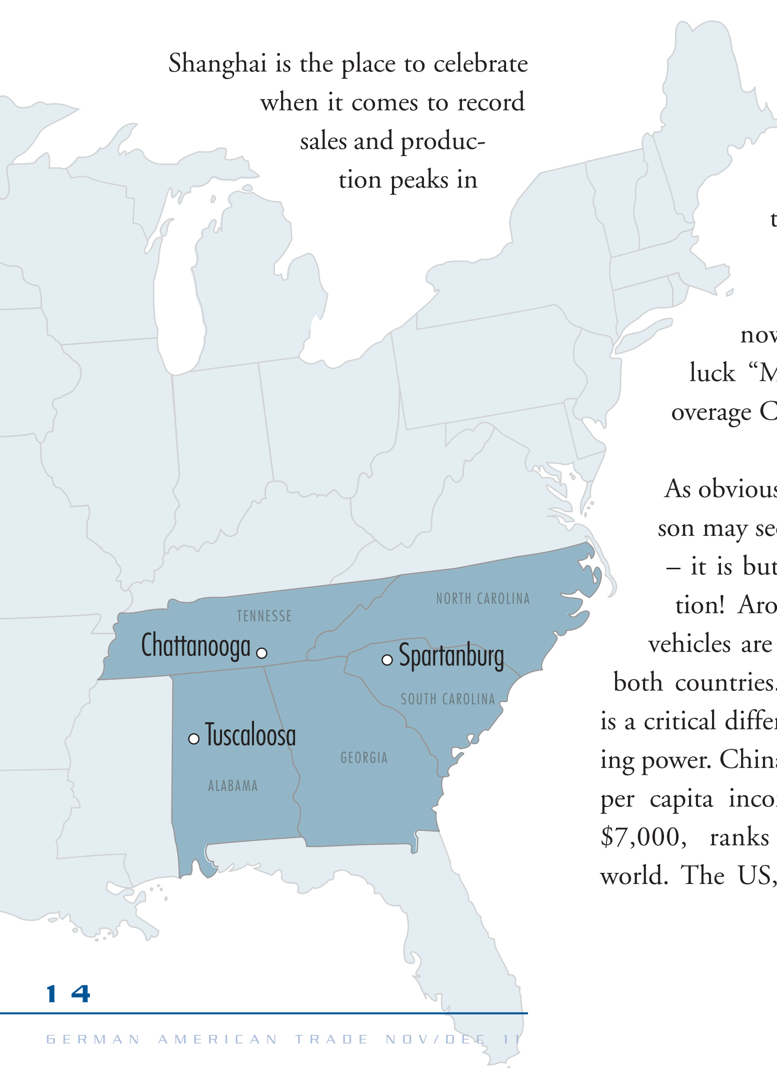
By Frank A. Linden and Clemens Schmitz-Justen

Tuscaloosa, AL, Spartanburg, SC, Chattanooga, TN: The "Boost Corridor" in the southeastern US has quietly developed into one of the international auto industry's key regions – especially for the German luxury car makers and their suppliers, this new "German Triangle" is well on its way to becoming a strategic hub in their global engineering and production networks.

Shanghai is the place to celebrate when it comes to record sales and production peaks in the car industry: Over the past decade, the Chinese developed "Auto Shanghai" into a festival of superlatives in the automotive world – a role traditionally reserved for Detroit and its annual kick-off event of the industry in January.

At first glance, the two cities and their show venues could well pass as respective icons for the state of their industries: In the East, Shanghai's gleaming, futuristic Hypodrome, in the West, America's formerly vibrant but now down-on-its-luck "Motown" with its overage Cobo Hall.

As obvious as this comparison may seem at first glance – it is but a catchy distortion! Around ten million vehicles are sold annually in both countries. However, there is a critical difference in the buying power. China, with its annual per capita income of less than $7,000, ranks 100th in the world. The US, with its almost $47,000 per capita, ranks sixth. It is this difference that drives the strategies of BMW, Daimler and Volkswagen-Audi.



Without much hype, yet following a determined step-by-step approach, the German automakers have been building and growing their presence in the Southeast.

Daimler, for example, is in the process of taking its C-Class to Tuscaloosa, AL – production for the American market will start at the Alabama plant in 2014. BMW has added the top-selling X3 and X6 models to its Spartanburg, SC plant. Last but not least, Volkswagen has just completed its most up-to-date plant in Chattanooga, TN.

In just a few years, German car manufacturers will expand their capacity in the southeastern United States to roughly a million vehicles. Volkswagen alone is planning on annual sales of 800,000 vehicles by the year 2018.

Against this background, suppliers are being challenged at an extremely rapid pace to face fundamental changes in their strategic equations at the beginning of this decade. In the past, production volumes of non-American OEMs that were relatively small rarely justified establishing full-fledged plants including engineering capacities for a foreign supplier. However, with the enormous boost in production, it is a whole new game with new rules and expectations.

Today, the US plants of BMW, Daimler and VW quickly develop local engineering, production and sourcing capacities that will play a key role in their globalization strategies in the years to come. Suppliers who want to stay in business with these players will have to rethink their localization strategies. Without top-notch sites in the US, they risk losing business; not just abroad, but also on their home turf in Germany.

The opportunity to minimize currency exchange risks in light of the dramatically increased production volumes is just the most obvious reason for expanding their presence and depth of manufacturing in the US. More importantly, suppliers need to be part of the value chain in the American, Asian and European triad, if they want to stay in business. Being good in Germany no longer guarantees survival.

Unlike almost any other American region, the rising automotive states have produced a second generation of a well-trained workforce. Colleges and universities have adjusted to the new demands and are turning out highly qualified engineers and specialists.

Possibly the most important productivity factor of the South is the experience that American managers have gained over the last two decades, working with foreign parent companies. Consequently, the new sites in the Southeast are graduating

ABOUT THE AUTHORS

Frank A. Linden and Clemens Schmitz-Justen are managing partners of EASC-Group, a strategic and executive consulting firm with offices in the US and Germany. Schmitz-Justen was President of BMW Manufacturing, LLC in Spartanburg, SC from 2004 to 2007.

from being assembly plants to becoming fully integrated engineering hubs in the global strategy of BMW, Daimler and Volkswagen-Audi.

This "New German Triangle" - comprised of the Carolinas, Tennessee, Georgia and Alabama – once a tranquil region, is progressing at almost the same pace as China to become one of the automotive industry's pre-eminent strategic regions. Never before has entering this market been more attractive. And never before has the risk been greater for German suppliers to end up on the sidelines of their home turf due to a lack of presence here. GAT